

15 April, 1983

MEMORANDUM FOR: Maurice Ernst
NIO/Economics

SUBJECT : Impact of an Oil Price Reduction on the OECD

1. In response to your request of 13 April, 1983, we conducted several simulation exercises with the new version of the Linked Policy Impact Model to gauge the impact of an oil price cut on the OECD countries using varying assumptions about government policy reactions.
2. In the first exercise, the world price of oil was cut \$5.00 per barrel (from \$30 to \$25) in 1983, and kept at that price in real terms through 1987. The level of real OECD GNP was estimated to be 0.6 percent higher in the first year of the price cut, and 1.26 percent higher by the third year (see Table 1). If the price decline is \$10 per barrel, in real terms, the impact on OECD GNP is approximately twice as great.

Table 1

Impact on Real OECD GNP of a Cut in World Oil Prices

(percent change in level of real GNP from the baseline estimate)

	\$5 cut in the world price of oil (in real terms)	\$10 cut in the world price of oil (in real terms)
1983	+0.60	+1.24
1984	+1.03	+2.11
1985	+1.26	+2.59
1986	+1.33	+2.73
1987	+1.34	+2.69

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3. In the second exercise we assumed that the government in each OECD country would raise tax rates on gasoline and other petroleum products so that the fall in the price of these products was only 75 percent of what it was in the \$5 and \$10 price-cut scenarios described above. For example, in the \$5 scenario above, the world price of oil fell 16.7 percent in nominal terms in the first year, and the price of gasoline in the US fell 10.2 percent. In the tax-increase scenario the price of US gasoline falls only 7.5 percent. We assumed that the governments did not increase their nominal expenditures; the new tax revenues were used only to reduce their budget deficits. In this case, the estimated impact on OECD real GNP of a \$5 or \$10 oil-price decline is 25 to 30 percent less than in the scenarios which assumed no energy tax increases (see Table 2).

Table 2

Impact on Real OECD GNP of a Cut in World Oil Prices--
OECD Governments Tax Away One-Quarter of the Price Drop

(percent change in level of real GNP from the baseline estimate)

	\$5 cut in the world price of oil (in real terms)	\$10 cut in the world price of oil (in real terms)
1983	+0.44	+0.90
1984	+0.72	+1.45
1985	+0.88	+1.77
1986	+0.93	+1.87
1987	+0.95	+1.89

4. In the third exercise we assumed that OECD governments would increase tax rates as described above, but that they also would increase nominal government expenditures exactly the same amount as the increase in energy tax revenues. In this case, the estimated boost to OECD real GNP is even greater than that estimated in the no-tax-increase scenarios, at least in the first year or so (see Table 3).

Table 3

**Impact on Real OECD GNP of a Cut in World Oil Prices--
OECD Governments Increase Taxes and Expenditures**

(percent change in level of real GNP from the baseline estimate)

	\$5 cut in the world price of oil (in real terms)	\$10 cut in the world price of oil (in real terms)
1983	+0.73	+1.49
1984	+1.07	+2.16
1985	+1.25	+2.50
1986	+1.32	+2.63
1987	+1.39	+2.79

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 (QUANTITIES IN THOUSAND B/D OF OIL OR OIL EQUIVALENT)

	1982	1983	1984	1985	1986	1987
OEC	----	----	----	----	----	----
OIL SUPPLIES	16386	16194	16002	15810	15728	15646
NON-OPEC LDCS						
OIL SUPPLIES	7576	8021	8629	9170	9550	9787
OPEC	----	----	----	----	----	----
PRODUCTION BY COUNTRY:						
ALGERIA	600	900	800	800	800	700
ECUADOR	200	200	200	200	200	100
GABON	200	200	200	200	180	160
INDONESIA	1300	1600	1600	1600	1500	1500
IRAN	2300	3500	3500	4000	3800	3700
IRAQ	1000	1500	2500	3500	3500	3500
KUWAIT	700	1250	1250	1250	1250	1250
LIBYA	1200	1900	2000	2100	2100	2100
NEUTRAL ZONE	300	500	500	500	500	500
NIGERIA	1300	2100	2000	2000	2000	1900
QATAR	300	500	500	500	500	500
UNITED ARAB EMIRATES	1200	1600	1900	2000	2000	2000
VENEZUELA	1900	2200	2100	2100	2100	2100
NATURAL GAS LIQUIDS	1000	1000	1100	1200	1400	1500
OTHER OPEC	13500	18950	20150	21950	21830	21510
SAUDI ARABIA	6300	2617	2880	2824	4621	6710
TOTAL	19800	21567	23030	24774	26451	28220
CONSUMPTION	3319	3433	3577	3726	3879	4038
STOCK CHANGE(1)	259	267	277	288	299	311
EXPORTS	16222	17866	19176	20760	22273	23872
FREE WORLD OIL SUPPLIES						
TOTAL FREE WORLD	43762	45782	47661	49754	51729	53653
NET COMMUNIST EXPORTS						
NET COMMUNIST EXPORTS	1500	1400	1200	1000	1000	800
OIL AVAILABLE TO THE FREE WORLD						
NON-OPEC	25462	25615	25831	25980	26278	26233
OPEC	19800	21567	23030	24774	26451	28220
TOTAL	45262	47182	48861	50754	52729	54453
	1982	1983	1984	1985	1986	1987
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 BASELINE SCENARIO
 PART II: OPEC PRICE AND THE DEMAND FOR OPEC OIL

SCENARIO:
 M30

NOMINAL OPEC PRICE \$/B	33.60	30.00	31.96	33.92	35.92	38.04
NOMINAL OPEC PRICE - % CHANGE	-2.6	-10.7	6.5	6.1	5.9	5.9
REAL OPEC PRICE 1980\$/B	29.21	24.67	24.67	24.67	24.67	24.67
OECD REAL ENERGY PRICE - % CHANGE	-2.2	-7.8	-0.2	-0.6	-0.2	0.3
OECD ENERGY DEMAND, UNADJUSTED	73306	74306	76265	78923	82031	85194
ENERGY DEMAND ADJUSTMENT	0	0	0	0	0	0
ADJUSTED OECD ENERGY DEMAND	73306	74306	76265	78923	82031	85194
LESS OECD NON-OIL ENERGY CONSUMPTION	37509	38073	39052	40389	41982	43796
OECD OIL DEMAND	35798	36233	37213	38534	40049	41399
LESS OECD OIL SUPPLIES	16386	16194	16002	15810	15728	15646
OECD OIL IMPORT DEMAND	19412	20039	21211	22725	24321	25753
LDC OIL DEMAND	4657	4853	5170	5434	5637	5841
LESS LDC OIL SUPPLIES	7576	8021	8629	9170	9550	9787
LESS NET COMMUNIST EXPORTS	1500	1400	1200	1000	1000	800
OIL STOCK CHANGE (EXCLUDING OPEC)(1)	1525	2133	2405	2615	2763	2817
STRATEGIC STOCKS	100	200	200	200	200	200
UNADJUSTED DEMAND FOR OPEC EXPORTS	16518	17604	18957	20604	22171	23824
NORMAL STATISTICAL DISCREPANCY	278	263	219	156	102	48
ADJUSTED DEMAND FOR OPEC EXPORTS	16796	17866	19176	20760	22273	23872
LESS OPEC EXPORTS	16222	17866	19176	20760	22273	23872
EXCESS DEMAND FOR OPEC OIL	574	0	0	0	0	0
OECD GNP, (BILLIONS OF 1980\$)	7684	7811	8026	8281	8553	8841
OECD GNP, GROWTH RATE	-0.4	1.7	2.7	3.2	3.3	3.4
RATIO, OECD ENERGY DEMAND TO GNP	91.24	90.97	90.88	91.14	91.72	92.16
ENERGY DEMAND TO GNP RATIO, GROWTH	-2.1	-0.3	-0.1	0.3	0.6	0.5
FREE WORLD OIL DEMAND, UNADJUSTED	43774	44519	45960	47695	49565	51277
FREE WORLD OIL DEMAND, ADJUSTED	44052	44782	46179	47851	49667	51325
FREE WORLD STOCK CHANGE	1785	2400	2683	2903	3062	3128
FREE WORLD OIL DEMAND, ADJUSTED, INCLUDING STOCK CHANGE	45837	47182	48861	50754	52729	54453
ANNUAL OIL REVENUES, IN BILLION \$						
SAUDI ARABIAN REVENUES	69.5	21.2	25.1	25.3	49.8	81.1
SAUDI ARABIAN REVENUES IN 1980\$	60.4	17.4	19.4	18.4	34.2	52.6
OPEC REVENUES	198.9	195.6	223.7	257.0	292.0	331.5
OPEC REVENUES IN 1980\$	1.7	1.6	1.7	1.9	2.0	2.1

(1) MINUS SIGN INDICATES STOCK DRAWDOWN

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(QUANTITIES IN THOUSAND B/D OF OIL OR OIL EQUIVALENT)

1982 1983 1984 1985 1986 1987
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PART I: OIL SUPPLIES

OECD

OIL SUPPLIES 16386 16194 16002 15810 15728 15646

NON-OPEC LDGS

OIL SUPPLIES 7576 8021 8629 9170 9550 9787

OPEC

PRODUCTION BY COUNTRY:

ALGERIA	600	900	800	800	800	700
ECUADOR	200	200	200	200	200	100
GABON	200	200	200	200	180	160
INDONESIA	1300	1600	1600	1600	1500	1500
IRAN	2300	3500	3500	4000	3800	3700
IRAQ	1000	1500	2500	3500	3500	3500
KUWAIT	700	1250	1250	1250	1250	1250
LIBYA	1200	1900	2000	2100	2100	2100
NEUTRAL ZONE	300	500	500	500	500	500
NIGERIA	1300	2100	2000	2000	2000	1900
QATAR	300	500	500	500	500	500
UNITED ARAB EMIRATES	1200	1600	1900	2000	2000	2000
VENEZUELA	1900	2200	2100	2100	2100	2100
NATURAL GAS LIQUIDS	1000	1000	1100	1200	1400	1500
OTHER OPEC	13500	18950	20150	21950	21830	21510
SAUDI ARABIA	6300	4050	5091	5537	7700	8500

TOTAL

CONSUMPTION

STOCK CHANGE(1)

EXPORTS

19800	23000	25241	27487	29530	30010
3319	3450	3602	3756	3912	4053
259	267	277	288	299	310
16222	19282	21362	23443	25319	25646

FREE WORLD OIL SUPPLIES

TOTAL FREE WORLD 43762 47215 49873 52467 54808 55443

NET COMMUNIST EXPORTS

NET COMMUNIST EXPORTS 1500 1400 1200 1000 1000 800

OIL AVAILABLE TO THE FREE WORLD

NON-OPEC	25462	25615	25831	25980	26278	26233
OPEC	19800	23000	25241	27487	29530	30010
TOTAL	45262	48615	51073	53467	55808	56243
1982	1983	1984	1985	1986	1987	

PART III: OPEC PRICE AND THE DEMAND FOR OPEC OIL

SCENARIO:
M25B

NOMINAL OPEC PRICE \$/B	33.60	25.00	26.53	28.18	29.89	31.70
NOMINAL OPEC PRICE - % CHANGE	-2.6	-25.6	6.1	6.2	6.1	6.0
REAL OPEC PRICE 1980\$/B	29.21	20.83	20.83	20.83	20.83	20.83
OECD REAL ENERGY PRICE - % CHANGE	-2.2	-14.8	-0.2	-0.6	-0.2	0.4
OECD ENERGY DEMAND, UNADJUSTED	73306	75500	78519	81949	85648	89267
ENERGY DEMAND ADJUSTMENT	0	0	0	0	0	0
ADJUSTED OECD ENERGY DEMAND	73306	75500	78519	81949	85648	89267
LESS OECD NON-OIL ENERGY CONSUMPTION	37509	38134	39340	40877	42645	44627
OECD OIL DEMAND	35798	37366	39179	41072	43003	44641
LESS OECD OIL SUPPLIES	16386	16194	16002	15810	15728	15646
OECD OIL IMPORT DEMAND	19412	21172	23177	25262	27275	28995
LDC OIL DEMAND	4657	4932	5272	5548	5756	5963
LESS LDC OIL SUPPLIES	7576	8021	8629	9170	9550	9787
LESS NET COMMUNIST EXPORTS	1500	1400	1200	1000	1000	800
OIL STOCK CHANGE (EXCLUDING OPEC)(1)	1525	2432	2651	2803	2916	2944
STRATEGIC STOCKS	100	200	200	200	200	200
UNADJUSTED DEMAND FOR OPEC EXPORTS	16518	19115	21271	23444	25397	27314
NORMAL STATISTICAL DISCREPANCY	278	167	91	-1	-78	-149
ADJUSTED DEMAND FOR OPEC EXPORTS	16796	19282	21362	23443	25319	27165
LESS OPEC EXPORTS	16222	19282	21362	23443	25319	25646
EXCESS DEMAND FOR OPEC OIL	574	0	0	0	0	1518
OECD GNP, (BILLIONS OF 1980\$)	7684	7859	8108	8386	8667	8959
OECD GNP, GROWTH RATE	-0.4	2.3	3.2	3.4	3.4	3.4
RATIO, OECD ENERGY DEMAND TO GNP	91.24	91.88	92.62	93.46	94.51	95.30
ENERGY DEMAND TO GNP RATIO, GROWTH	-2.1	0.7	0.8	0.9	1.1	0.8
FREE WORLD OIL DEMAND, UNADJUSTED	43774	45748	48053	50377	52671	54657
FREE WORLD OIL DEMAND, ADJUSTED	44052	45916	48144	50376	52593	54507
FREE WORLD STOCK CHANGE	1785	2699	2928	3091	3215	3254
FREE WORLD OIL DEMAND, ADJUSTED, INCLUDING STOCK CHANGE	45837	48615	51073	53467	55808	57761
ANNUAL OIL REVENUES, IN BILLION \$						
SAUDI ARABIAN REVENUES	69.5	30.7	42.2	48.9	75.0	88.3
SAUDI ARABIAN REVENUES IN 1980\$	60.4	25.6	33.2	36.2	52.3	58.0
OPEC REVENUES	198.9	176.0	206.9	241.1	276.3	296.7
OPEC REVENUES IN 1980\$	1.7	1.5	1.6	1.8	1.9	1.9

(1) MINUS SIGN INDICATES STOCK DRAWDOWN

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\$10 OIL PRICE CUT, NO CHANGE IN GOVERNMENT POLICIES
(QUANTITIES IN THOUSAND B/D OF OIL OR OIL EQUIVALENT)

1982 1983 1984 1985 1986 1987

PART I: OIL SUPPLIES

OECD

OIL SUPPLIES 16386 16194 16002 15810 15728 15646

NON-OPEC LDCS

OIL SUPPLIES 7576 8021 8629 9170 9550 9787

OPEC

PRODUCTION BY COUNTRY:

ALGERIA	600	900	800	800	800	700
ECUADOR	200	200	200	200	200	100
GABON	200	200	200	200	180	160
INDONESIA	1300	1600	1600	1600	1500	1500
IRAN	2300	3500	3500	4000	3800	3700
IRAQ	1000	1500	2500	3500	3500	3500
KUWAIT	700	1250	1250	1250	1250	1250
LIBYA	1200	1900	2000	2100	2100	2100
NEUTRAL ZONE	300	500	500	500	500	500
NIGERIA	1300	2100	2000	2000	2000	1900
QATAR	300	500	500	500	500	500
UNITED ARAB EMIRATES	1200	1600	1900	2000	2000	2000
VENEZUELA	1900	2200	2100	2100	2100	2100
NATURAL GAS LIQUIDS	1000	1000	1100	1200	1400	1500
OTHER OPEC	13500	18950	20150	21950	21830	21510
SAUDI ARABIA	6300	5597	7530	8500	8500	8500
TOTAL	19800	24547	27680	30450	30330	30010
CONSUMPTION	3319	3468	3630	3788	3915	4044
STOCK CHANGE(1)	259	267	277	287	298	309
EXPORTS	16222	20812	23774	26375	26117	25657

FREE WORLD OIL SUPPLIES

TOTAL FREE WORLD 43762 48762 52311 55430 55608 55443

NET COMMUNIST EXPORTS

NET COMMUNIST EXPORTS 1500 1400 1200 1000 1000 800

OIL AVAILABLE TO THE FREE WORLD

NON-OPEC	25462	25615	25831	25980	26278	26233
OPEC	19800	24547	27680	30450	30330	30010
TOTAL	45262	50162	53511	56430	56608	56243
1982	1983	1984	1985	1986	1987	
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\$10 OIL Sanitized Copy Approved for Release 2010/07/13 : CIA-RDP85T00287R000501160001-0

PART II: OPEC PRICE AND THE DEMAND FOR OPEC OIL

SCENARIO:
M20

NOMINAL OPEC PRICE \$/B	33.60	20.00	21.13	22.47	23.91	25.40
NOMINAL OPEC PRICE - % CHANGE	-2.6	-40.5	5.7	6.4	6.4	6.3
REAL OPEC PRICE 1980\$/B	29.21	16.91	16.91	16.91	16.91	16.91
OECD REAL ENERGY PRICE - % CHANGE	-2.2	-21.8	-0.2	-0.4	-0.1	0.5
OECD ENERGY DEMAND, UNADJUSTED	73306	76811	81046	85369	89761	93873
ENERGY DEMAND ADJUSTMENT	0	0	0	0	0	0
ADJUSTED OECD ENERGY DEMAND	73306	76811	81046	85369	89761	93873
LESS OECD NON-OIL ENERGY CONSUMPTION	37509	38207	39669	41434	43406	45570
OECD OIL DEMAND	35798	38603	41376	43934	46355	48303
LESS OECD OIL SUPPLIES	16386	16194	16002	15810	15728	15646
OECD OIL IMPORT DEMAND	19412	22409	25374	28125	30627	32657
LDC OIL DEMAND	4657	5008	5371	5659	5871	6075
LESS LDC OIL SUPPLIES	7576	8021	8629	9170	9550	9787
LESS NET COMMUNIST EXPORTS	1500	1400	1200	1000	1000	800
OIL STOCK CHANGE (EXCLUDING OPEC)(1)	1525	2755	2926	3013	3089	3072
STRATEGIC STOCKS	100	200	200	200	200	200
UNADJUSTED DEMAND FOR OPEC EXPORTS	16518	20751	23842	26626	29037	31216
NORMAL STATISTICAL DISCREPANCY	278	60	-69	-200	-311	-400
ADJUSTED DEMAND FOR OPEC EXPORTS	16796	20812	23774	26426	28726	30816
LESS OPEC EXPORTS	16222	20812	23774	26375	26117	25657
EXCESS DEMAND FOR OPEC OIL	574	0	0	52	2609	5159
OECD GNP, (BILLIONS OF 1980\$)	7684	7909	8195	8496	8787	9078
OECD GNP, GROWTH RATE	-0.4	2.9	3.6	3.7	3.4	3.3
RATIO, OECD ENERGY DEMAND TO GNP	91.24	92.89	94.58	96.10	97.70	98.89
ENERGY DEMAND TO GNP RATIO, GROWTH	-2.1	1.8	1.8	1.6	1.7	1.2
FREE WORLD OIL DEMAND, UNADJUSTED	43774	47080	50377	53381	56140	58421
FREE WORLD OIL DEMAND, ADJUSTED	44052	47140	50309	53181	55829	58021
FREE WORLD STOCK CHANGE	1785	3022	3203	3300	3387	3381
FREE WORLD OIL DEMAND, ADJUSTED, INCLUDING STOCK CHANGE	45837	50162	53511	56482	59216	61402
ANNUAL OIL REVENUES, IN BILLION \$						
SAUDI ARABIAN REVENUES	69.5	35.9	52.4	63.3	67.0	70.8
SAUDI ARABIAN REVENUES IN 1980\$	60.4	30.3	42.0	47.6	47.4	47.1
OPEC REVENUES	198.9	151.9	183.4	216.4	227.9	237.9
OPEC REVENUES IN 1980\$	1.7	1.3	1.5	1.6	1.6	1.6

(1) MINUS SIGN INDICATES STOCK DRAWDOWN

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 (QUANTITIES IN THOUSAND B/D OF OIL OR OIL EQUIVALENT)

	1982	1983	1984	1985	1986	1987
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PART I: OIL SUPPLIES

OECD

OIL SUPPLIES	16386	16194	16002	15810	15728	15646
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NON-OPEC LDCS

OIL SUPPLIES	7576	8021	8629	9170	9550	9787
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OPEC

PRODUCTION BY COUNTRY:

ALGERIA	600	900	800	800	800	700
ECUADOR	200	200	200	200	200	100
GABON	200	200	200	200	180	160
INDONESIA	1300	1600	1600	1600	1500	1500
IRAN	2300	3500	3500	4000	3800	3700
IRAQ	1000	1500	2500	3500	3500	3500
KUWAIT	700	1250	1250	1250	1250	1250
LIBYA	1200	1900	2000	2100	2100	2100
NEUTRAL ZONE	300	500	500	500	500	500
NIGERIA	1300	2100	2000	2000	2000	1900
QATAR	300	500	500	500	500	500
UNITED ARAB EMIRATES	1200	1600	1900	2000	2000	2000
VENEZUELA	1900	2200	2100	2100	2100	2100
NATURAL GAS LIQUIDS	1000	1000	1100	1200	1400	1500
OTHER OPEC	13500	18950	20150	21950	21830	21510
SAUDI ARABIA	6300	3645	4465	4764	6821	8500
TOTAL	19800	22595	24615	26714	28651	30010
CONSUMPTION	3319	3445	3594	3746	3901	4054
STOCK CHANGE(1)	259	267	277	288	299	310
EXPORTS	16222	18883	20744	22679	24451	25646

FREE WORLD OIL SUPPLIES

TOTAL FREE WORLD	43762	46810	49246	51694	53929	55443
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NET COMMUNIST EXPORTS

NET COMMUNIST EXPORTS	1500	1400	1200	1000	1000	800
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OIL AVAILABLE TO THE FREE WORLD

NON-OPEC	25462	25615	25831	25980	26278	26233
OPEC	19800	22595	24615	26714	28651	30010
TOTAL	45262	48210	50446	52694	54929	56243
	1982	1983	1984	1985	1986	1987
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PART II: OPEC PRICE AND THE DEMAND FOR OPEC OIL

SCENARIO:
M25C

NOMINAL OPEC PRICE \$/B	33.60	25.00	26.55	28.18	29.87	31.65
NOMINAL OPEC PRICE - % CHANGE	-2.6	-25.6	6.2	6.1	6.0	6.0
REAL OPEC PRICE 1980\$/B	29.21	20.77	20.77	20.77	20.77	20.77
OECD REAL ENERGY PRICE - % CHANGE	-2.2	-13.2	-0.1	-0.6	-0.2	0.4
OECD ENERGY DEMAND, UNADJUSTED	73306	75203	77927	81143	84684	88186
ENERGY DEMAND ADJUSTMENT	0	0	0	0	0	0
ADJUSTED OECD ENERGY DEMAND	73306	75203	77927	81143	84684	88186
LESS OECD NON-OIL ENERGY CONSUMPTION	37509	38179	39336	40830	42565	44517
OECD OIL DEMAND	35798	37024	38590	40312	42120	43669
LESS OECD OIL SUPPLIES	16386	16194	16002	15810	15728	15646
OECD OIL IMPORT DEMAND	19412	20830	22588	24503	26392	28023
LDC OIL DEMAND	4657	4927	5262	5536	5742	5948
LESS LDC OIL SUPPLIES	7576	8021	8629	9170	9550	9787
LESS NET COMMUNIST EXPORTS	1500	1400	1200	1000	1000	800
OIL STOCK CHANGE (EXCLUDING OPEC)(1)	1525	2351	2589	2758	2882	2916
STRATEGIC STOCKS	100	200	200	200	200	200
UNADJUSTED DEMAND FOR OPEC EXPORTS	16518	18687	20610	22626	24466	26300
NORMAL STATISTICAL DISCREPANCY	278	195	133	53	-15	-79
ADJUSTED DEMAND FOR OPEC EXPORTS	16796	18883	20744	22679	24451	26221
LESS OPEC EXPORTS	16222	18883	20744	22679	24451	25646
EXCESS DEMAND FOR OPEC OIL	574	0	0	0	0	575
OECD GNP, (BILLIONS OF 1980\$)	7684	7846	8084	8355	8633	8924
OECD GNP, GROWTH RATE	-0.4	2.1	3.0	3.3	3.3	3.4
RATIO, OECD ENERGY DEMAND TO GNP	91.24	91.66	92.19	92.89	93.81	94.51
ENERGY DEMAND TO GNP RATIO, GROWTH	-2.1	0.5	0.6	0.8	1.0	0.7
FREE WORLD OIL DEMAND, UNADJUSTED	43774	45396	47447	49595	51763	53671
FREE WORLD OIL DEMAND, ADJUSTED	44052	45592	47580	49648	51748	53592
FREE WORLD STOCK CHANGE	1785	2618	2866	3046	3180	3226
FREE WORLD OIL DEMAND, ADJUSTED, INCLUDING STOCK CHANGE	45837	48210	50446	52694	54929	56818
ANNUAL OIL REVENUES, IN BILLION \$						
SAUDI ARABIAN REVENUES	69.5	27.0	36.2	41.0	65.4	88.2
SAUDI ARABIAN REVENUES IN 1980\$	60.4	22.5	28.3	30.2	45.5	57.9
OPFC REVENUES	198.9	172.3	201.0	233.3	266.6	296.3
OPIC REVENUES IN 1980\$	1.7	1.4	1.6	1.7	1.9	1.9

(1) MINUS SIGN INDICATES STOCK DRAWDOWN

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 (QUANTITIES IN THOUSAND B/D OF OIL OR OIL EQUIVALENT)

	1982	1983	1984	1985	1986	1987
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PART I: OIL SUPPLIES

OECD

OIL SUPPLIES

16386	16194	16002	15810	15728	15646
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NON-OPEC LDCS

OIL SUPPLIES

7576	8021	8629	9170	9550	9787
------	------	------	------	------	------

OPEC

PRODUCTION BY COUNTRY:

ALGERIA	600	900	800	800	800	700
ECUADOR	200	200	200	200	200	100
GABON	200	200	200	200	180	160
INDONESIA	1300	1600	1600	1600	1500	1500
IRAN	2300	3500	3500	4000	3800	3700
IRAQ	1000	1500	2500	3500	3500	3500
KUWAIT	700	1250	1250	1250	1250	1250
LIBYA	1200	1900	2000	2100	2100	2100
NEUTRAL ZONE	300	500	500	500	500	500
NIGERIA	1300	2100	2000	2000	2000	1900
QATAR	300	500	500	500	500	500
UNITED ARAB EMIRATES	1200	1600	1900	2000	2000	2000
VENEZUELA	1900	2200	2100	2100	2100	2100
NATURAL GAS LIQUIDS	1000	1000	1100	1200	1400	1500
OTHER OPEC	13500	18950	20150	21950	21830	21510
SAUDI ARABIA	6300	4699	6115	6793	8500	8500
TOTAL	19800	23649	26265	28743	30330	30010
CONSUMPTION	3319	3457	3612	3767	3915	4044
STOCK CHANGE(1)	259	267	277	287	298	309
EXPORTS	16222	19925	22377	24689	26117	25657

FREE WORLD OIL SUPPLIES

TOTAL FREE WORLD

43762	47864	50896	53722	55608	55443
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NET COMMUNIST EXPORTS

NET COMMUNIST EXPORTS

1500	1400	1200	1000	1000	800
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OIL AVAILABLE TO THE FREE WORLD

NON-OPEC

OPEC

TOTAL

25462	25615	25831	25980	26278	26233
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19800	23649	26265	28743	30330	30010
-------	-------	-------	-------	-------	-------

45262	49264	52096	54722	56608	56243
-------	-------	-------	-------	-------	-------

1982	1983	1984	1985	1986	1987
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PART II: OPEC PRICE AND THE DEMAND FOR OPEC OIL

SCENARIO:
M20C

NOMINAL OPEC PRICE \$/B	33.60	20.00	21.16	22.47	23.86	25.31
NOMINAL OPEC PRICE - % CHANGE	-2.6	-40.5	5.8	6.2	6.2	6.1
REAL OPEC PRICE 1980\$/B	29.21	16.80	16.80	16.80	16.80	16.80
OECD REAL ENERGY PRICE - % CHANGE	-2.2	-18.5	-0.0	-0.5	-0.1	0.5
OECD ENERGY DEMAND, UNADJUSTED	73306	76150	79705	83534	87553	91423
ENERGY DEMAND ADJUSTMENT	0	0	0	0	0	0
ADJUSTED OECD ENERGY DEMAND	73306	76150	79705	83534	87553	91423
LESS OECD NON-OIL ENERGY CONSUMPTION	37509	38304	39656	41324	43215	45323
OECD OIL DEMAND	35798	37846	40049	42210	44338	46100
LESS OECD OIL SUPPLIES	16386	16194	16002	15810	15728	15646
OECD OIL IMPORT DEMAND	19412	21651	24047	26400	28610	30454
LDC OIL DEMAND	4657	4998	5350	5631	5841	6048
LESS LDC OIL SUPPLIES	7576	8021	8629	9170	9550	9787
LESS NET COMMUNIST EXPORTS	1500	1400	1200	1000	1000	800
OIL STOCK CHANGE (EXCLUDING OPEC)(1)	1525	2576	2783	2908	3005	3015
STRATEGIC STOCKS	100	200	200	200	200	200
UNADJUSTED DEMAND FOR OPEC EXPORTS	16518	19804	22351	24769	26906	28929
NORMAL STATISTICAL DISCREPANCY	278	121	26	-80	-170	-247
ADJUSTED DEMAND FOR OPEC EXPORTS	16796	19925	22377	24689	26737	28681
LESS OPEC EXPORTS	16222	19925	22377	24689	26117	25657
EXCESS DEMAND FOR OPEC OIL	574	0	0	0	620	3025
OECD GNP, (BILLIONS OF 1980\$)	7684	7881	8142	8428	8713	9008
OECD GNP, GROWTH RATE	-0.4	2.6	3.3	3.5	3.4	3.4
RATIO, OECD ENERGY DEMAND TO GNP	91.24	92.40	93.62	94.79	96.10	97.07
ENERGY DEMAND TO GNP RATIO, GROWTH	-2.1	1.3	1.3	1.2	1.4	1.0
FREE WORLD OIL DEMAND, UNADJUSTED	43774	46301	49011	51608	54094	56191
FREE WORLD OIL DEMAND, ADJUSTED	44052	46422	49037	51527	53924	55944
FREE WORLD STOCK CHANGE	1785	2842	3060	3195	3303	3324
FREE WORLD OIL DEMAND, ADJUSTED, INCLUDING STOCK CHANGE	45837	49264	52096	54722	57227	59268
ANNUAL OIL REVENUES, IN BILLION \$						
SAUDI ARABIAN REVENUES	69.5	29.3	41.6	49.3	66.8	70.5
SAUDI ARABIAN REVENUES IN 1980\$	60.4	24.6	33.0	36.9	47.1	46.8
OPEC REVENUES	198.9	145.5	172.8	202.5	227.4	237.0
OPEC REVENUES IN 1980\$	1.7	1.2	1.4	1.5	1.6	1.6

(1) MINUS SIGN INDICATES STOCK DRAWDOWN

\$5 Sanitized Copy Approved for Release 2010/07/13 : CIA-RDP85T00287R000501160001-0
 (QUANTITIES IN THOUSAND B/D OF OIL OR OIL EQUIVALENT)

1982 1983 1984 1985 1986 1987

PART I: OIL SUPPLIES

OECD

OIL SUPPLIES

16386 16194 16002 15810 15728 15646

NON-OPEC LDCS

OIL SUPPLIES

7576 8021 8629 9170 9550 9787

OPEC

PRODUCTION BY COUNTRY:

ALGERIA	600	900	800	800	800	700
ECUADOR	200	200	200	200	200	100
GABON	200	200	200	200	180	160
INDONESIA	1300	1600	1600	1600	1500	1500
IRAN	2300	3500	3500	4000	3800	3700
IRAQ	1000	1500	2500	3500	3500	3500
KUWAIT	700	1250	1250	1250	1250	1250
LIBYA	1200	1900	2000	2100	2100	2100
NEUTRAL ZONE	300	500	500	500	500	500
NIGERIA	1300	2100	2000	2000	2000	1900
QATAR	300	500	500	500	500	500
UNITED ARAB EMIRATES	1200	1600	1900	2000	2000	2000
VENEZUELA	1900	2200	2100	2100	2100	2100
NATURAL GAS LIQUIDS	1000	1000	1100	1200	1400	1500
OTHER OPEC	13500	18950	20150	21950	21830	21510
SAUDI ARABIA	6300	3845	4698	5018	7099	8500

TOTAL CONSUMPTION STOCK CHANGE(1) EXPORTS

19800 22795 24848 26968 28929 30010
 3319 3448 3597 3750 3905 4053
 259 267 277 288 299 310
 16222 19080 20974 22930 24726 25647

FREE WORLD OIL SUPPLIES

TOTAL FREE WORLD

43762 47010 49479 51948 54207 55443

NET COMMUNIST EXPORTS

NET COMMUNIST EXPORTS

1500 1400 1200 1000 1000 800

OIL AVAILABLE TO THE FREE WORLD

**NON-OPEC
OPEC
TOTAL**

25462	25615	25831	25980	26278	26233
19800	22795	24848	26968	28929	30010
45262	48410	50679	52948	55207	56243
1982	1983	1984	1985	1986	1987

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PART II: OPEC PRICE AND THE DEMAND FOR OPEC OIL

SCENARIO:
M25D

NOMINAL OPEC PRICE \$/B	33.60	25.00	26.58	28.23	29.94	31.74
NOMINAL OPEC PRICE - % CHANGE	-2.6	-25.6	6.3	6.2	6.1	6.0
REAL OPEC PRICE 1980\$/B	29.21	20.75	20.75	20.75	20.75	20.75
OECD REAL ENERGY PRICE - % CHANGE	-2.2	-13.3	-0.1	-0.6	-0.2	0.4
OECD ENERGY DEMAND, UNADJUSTED	73306	75417	78217	81477	85064	88631
ENERGY DEMAND ADJUSTMENT	0	0	0	0	0	0
ADJUSTED OECD ENERGY DEMAND	73306	75417	78217	81477	85064	88631
LESS OECD NON-OIL ENERGY CONSUMPTION	37508	38231	39410	40919	42673	44660
OECD OIL DEMAND	35798	37186	38806	40557	42391	43972
LESS OECD OIL SUPPLIES	16386	16194	16002	15810	15728	15646
OECD OIL IMPORT DEMAND	19412	20992	22804	24747	26663	28326
LDC OIL DEMAND	4657	4936	5275	5549	5755	5963
LESS LDC OIL SUPPLIES	7576	8021	8629	9170	9550	9787
LESS NET COMMUNIST EXPORTS	1500	1400	1200	1000	1000	800
OIL STOCK CHANGE (EXCLUDING OPEC)(1)	1525	2392	2606	2770	2893	2929
STRATEGIC STOCKS	100	200	200	200	200	200
UNADJUSTED DEMAND FOR OPEC EXPORTS	16518	18898	20857	22895	24762	26630
NORMAL STATISTICAL DISCREPANCY	278	182	117	35	-35	-100
ADJUSTED DEMAND FOR OPEC EXPORTS	16796	19080	20974	22930	24726	26530
LESS OPEC EXPORTS	16222	19080	20974	22930	24726	25647
EXCESS DEMAND FOR OPEC OIL	574	0	0	0	0	884
OECD GNP, (BILLIONS OF 1980\$)	7684	7868	8112	8385	8666	8963
OECD GNP, GROWTH RATE	-0.4	2.4	3.1	3.4	3.4	3.4
RATIO, OECD ENERGY DEMAND TO GNP	91.24	91.67	92.22	92.93	93.87	94.57
ENERGY DEMAND TO GNP RATIO, GROWTH	-2.1	0.5	0.6	0.8	1.0	0.7
FREE WORLD OIL DEMAND, UNADJUSTED	43774	45569	47679	49855	52051	53988
FREE WORLD OIL DEMAND, ADJUSTED	44052	45751	47796	49890	52015	53888
FREE WORLD STOCK CHANGE	1785	2659	2884	3057	3192	3239
FREE WORLD OIL DEMAND, ADJUSTED, INCLUDING STOCK CHANGE	45836	48410	50679	52948	55207	57127
ANNUAL OIL REVENUES, IN BILLION \$						
SAUDI ARABIAN REVENUES	69.5	28.9	38.5	43.7	68.6	88.4
SAUDI ARABIAN REVENUES IN 1980\$	60.4	24.0	30.0	32.1	47.5	57.8
OPIC REVENUES	198.9	174.1	203.5	236.3	270.2	297.1
OPIC REVENUES IN 1980\$	1.7	1.4	1.6	1.7	1.9	1.9

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**\$10 PRICE CUT, TAX RATES AND EXPENDITURES CHANGES
 (QUANTITIES IN THOUSAND B/D OF OIL OR OIL EQUIVALENT)**

	1982	1983	1984	1985	1986	1987
PART I: OIL SUPPLIES						
OECD	---	---	---	---	---	---
OIL SUPPLIES	16386	16194	16002	15810	15728	15646
NON-OPEC LDCS	---	---	---	---	---	---
OIL SUPPLIES	7576	8021	8629	9170	9550	9787
OPEC	---	---	---	---	---	---
PRODUCTION BY COUNTRY:						
ALGERIA	600	900	800	800	800	700
ECUADOR	200	200	200	200	200	100
GABON	200	200	200	200	180	160
INDONESIA	1300	1600	1600	1600	1500	1500
IRAN	2300	3500	3500	4000	3800	3700
IRAQ	1000	1500	2500	3500	3500	3500
KUWAIT	700	1250	1250	1250	1250	1250
LIBYA	1200	1900	2000	2100	2100	2100
NEUTRAL ZONE	300	500	500	500	500	500
NIGERIA	1300	2100	2000	2000	2000	1900
QATAR	300	500	500	500	500	500
UNITED ARAB EMIRATES	1200	1600	1900	2000	2000	2000
VENEZUELA	1900	2200	2100	2100	2100	2100
NATURAL GAS LIQUIDS	1000	1000	1100	1200	1400	1500
OTHER OPEC	13500	18950	20150	21950	21830	21510
SAUDI ARABIA	6300	5065	6521	7207	8500	8500
TOTAL	19800	24015	26671	29157	30330	30010
CONSUMPTION	3319	3462	3617	3772	3914	4043
STOCK CHANGE(1)	259	267	277	287	298	309
EXPORTS	16222	20287	22777	25098	26117	25658
FREE WORLD OIL SUPPLIES						
TOTAL FREE WORLD	43762	48231	51302	54137	55608	55443
NET COMMUNIST EXPORTS						
NET COMMUNIST EXPORTS	1500	1400	1200	1000	1000	800
OIL AVAILABLE TO THE FREE WORLD						
NON-OPEC	25462	25615	25831	25980	26278	26233
OPEC	19800	24015	26671	29157	30330	30010
TOTAL	45262	49631	52502	55137	56608	56243
	1982	1983	1984	1985	1986	1987
	---	---	---	---	---	---

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\$10 PRICE CUT, TAX RAITS AND EXPENDITURES CHANGES

PART II: OPEC PRICE AND THE DEMAND FOR OPEC OIL

SCENARIO:
M20D

NOMINAL OPEC PRICE \$/B	33.60	20.00	21.22	22.58	23.99	25.48
NOMINAL OPEC PRICE - % CHANGE	-2.6	-40.5	6.1	6.4	6.3	6.2
REAL OPEC PRICE 1980\$/B	29.21	16.75	16.75	16.75	16.75	16.75
OECD REAL ENERGY PRICE - % CHANGE	-2.2	-18.6	-0.0	-0.5	-0.1	0.8
OECD ENERGY DEMAND, UNADJUSTED	73306	76560	80236	84115	88193	92184
ENERGY DEMAND ADJUSTMENT	0	0	0	0	0	0
ADJUSTED OECD ENERGY DEMAND	73306	76560	80236	84115	88193	92184
LESS OECD NON-OIL ENERGY CONSUMPTION	37509	38423	39816	41510	43440	45634
OECD OIL DEMAND	35798	38137	40420	42604	44753	46550
LESS OECD OIL SUPPLIES	16386	16194	16002	15810	15728	15646
OECD OIL IMPORT DEMAND	19412	21943	24418	26795	29025	30904
LDC OIL DEMAND	4657	5016	5376	5656	5865	6076
LESS LDC OIL SUPPLIES	7576	8021	8629	9170	9550	9787
LESS NET COMMUNIST EXPORTS	1500	1400	1200	1000	1000	800
OIL STOCK CHANGE (EXCLUDING OPEC)(1)	1525	2651	2811	2923	3020	3033
STRATEGIC STOCKS	100	200	200	200	200	200
UNADJUSTED DEMAND FOR OPEC EXPORTS	16518	20188	22776	25203	27361	29425
NORMAL STATISTICAL DISCREPANCY	278	99	1	-105	-195	-269
ADJUSTED DEMAND FOR OPEC EXPORTS	16796	20287	22777	25098	27166	29157
LESS OPEC EXPORTS	16222	20287	22777	25098	26117	25658
EXCESS DEMAND FOR OPEC OIL	574	0	0	0	1048	3499
OECD GNP, (BILLIONS OF 1980\$)	7684	7928	8199	8489	8778	9087
OECD GNP, GROWTH RATE	-0.4	3.2	3.4	3.5	3.4	3.5
RATIO, OECD ENERGY DEMAND TO GNP	91.24	92.36	93.59	94.77	96.08	97.02
ENERGY DEMAND TO GNP RATIO, GROWTH	-2.1	1.2	1.3	1.3	1.4	1.0
FREE WORLD OIL DEMAND, UNADJUSTED	43774	46615	49413	52032	54533	56669
FREE WORLD OIL DEMAND, ADJUSTED	44052	46713	49414	51927	54338	56400
FREE WORLD STOCK CHANGE	1785	2917	3088	3210	3318	3342
FREE WORLD OIL DEMAND, ADJUSTED, INCLUDING STOCK CHANGE	45836	49631	52502	55137	57656	59742
ANNUAL OIL REVENUES, IN BILLION \$						
SAUDI ARABIAN REVENUES	69.5	32.0	44.8	53.0	67.2	71.0
SAUDI ARABIAN REVENUES IN 1980\$	60.4	26.8	35.4	39.3	46.9	46.7
OPIC REVENUES	198.9	148.1	176.4	206.8	228.7	238.6
OPIC REVENUES IN 1980\$	1.7	1.2	1.4	1.5	1.6	1.6

(1) MINUS SIGN INDICATES STOCK DRAWDOWN

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(18Apr.83)

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1 July 1983

CHINA: MOUNTING ECONOMIC MANAGEMENT PROBLEMS

25X1

Summary

Premier Zhao Ziyang, in his 6 June government work report to the National People's Congress, warned that China's investment spending is "out of control" and criticized the government for its "failure to take sufficiently forceful measures" to remedy the situation. Partly to blame, said Zhao, are economic reforms that decentralized production and investment decisions. Beijing late last year took steps to recentralize at least part of the investment decisions but, judging from first-quarter 1983 statistics, these measures have met with scant success. We believe Beijing will be forced to take much stronger steps--perhaps undercutting elements of the government's economic reform program--lest current trends significantly hamper long-range development plans.

25X1

China began the period following the 1976 fall of the Gang of Four with a high-speed development program cast in the mold of past attempts: rapid heavy industrial growth to support a massive investment campaign, and a corresponding lack of emphasis on consumer welfare and light industry. The Third Plenum in December 1978 repudiated this approach and redefined China's economic goals; putting balanced growth and improvements in living standards first. To implement this policy, China undertook economic management reform and decentralized some decision-making functions. Although agriculture has grown impressively--justifying Beijing's policies--the rest of the economy has not fared as well.

25X1

EA M 83-10119

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Investment: Growing and Unmanageable

The government has attempted unsuccessfully to cut investment rates ever since late 1978.¹ This departure from policy tradition has been necessary because, with too few construction inputs and too many projects, construction times for even the most critical projects are unacceptably long. A second motivation has been the goal of raising living standards, to be achieved partly by deemphasizing investment. [redacted]

25X1

Although generally in keeping with state plans, investment spending hit historic peaks in 1979 and 1980 (see table 1 for investment data). In early 1981, the government called for "readjustment," slashing the original 55 billion yuan investment target for that year to 30 billion yuan. This move was taken--on the advice of Chen Yun, Deng Xiaoping's most seasoned economic policy advisor--as a drastic measure to implement investment-cutting policies we believe the Deng group was unable to legislate in 1979 or 1980. Although investment spending by yearend 1981 was below the preceding year, it still exceeded the plan by nearly 50 percent.² Investment controlled by the state budget was only 20 percent over plan, but investment outside the budget was 80 percent over plan.³ [redacted]

25X1

In 1982, government pleas and warnings to cut investment were again ignored and investment overshot the relatively austere 38 billion yuan target for the year, this time by over 40 percent. In fact, 1982 investment was a record 55.5 billion yuan, 11 billion yuan over the preceding year. Investment from all sources of funds exceeded the plan, with that from discretionary enterprise earnings outstripping the target by over 100 percent. [redacted]

25X1

¹The term "investment" throughout this typescript refers to new fixed investment in state-owned enterprises. [redacted]

25X1

²We are comparing final data with the original plan. In fact, in both 1981 and 1982, Beijing revised upward its investment targets halfway through the year, a move we believe made virtue of necessity. [redacted]

25X1

³As table 1 shows, investment spending comes from a variety of sources. The source the government can most easily control is spending from the state budget. Spending from retained enterprise earnings is least susceptible to government management, while spending from domestic and foreign loans falls between these extremes. [redacted]

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Industry: Overreacting

We believe that Beijing's difficulty in guiding industrial production stems from its inability to control investment. In line with its investment-cutting policy, the government early in 1979 sought to redress the imbalance between producer goods and consumer goods production by giving priority to the long-neglected light industry sector. Industrial results in 1979 were close to the plan, with light industry up at a slightly higher rate than heavy industry (see table 2 for industry data). In 1980 and 1981, however, the economy overreacted to pro-light industry policies: heavy industry in 1981 dropped below 1979 production levels. Although the rapid growth of light industry was in the right direction, it overshot the target. The traditional complaint against heavy industry--that it turned out unusable, poor quality products--was in 1980-81 used to characterize light industry for the first time. [redacted]

25X1

In 1982 the economy simply did not comply with the plan, which called for 7-percent light industry growth and a 1-percent heavy industry increase. Heavy industry grew at nearly a 10-percent rate for the first time since 1978. Light industry fell below the plan in spite of a public continuation of the "light industry first" policy. Production data for the first quarter of 1983 show that the 1982 trend continues, with light industry falling even further behind heavy industry. [redacted]

25X1

What Went Wrong?

Economic reforms have created conditions in which central government plans for investment can be largely ignored. Budget reforms implemented in 1980 have given local governments greater control over spending, and enterprise management reforms since 1979 have permitted enterprises to retain a growing share--reported to be about one-quarter now--of their profits. Chinese press sources claim that the pool of extrabudget discretionary funds was over 60 billion yuan in 1982, against a government budget that year of only about 100 billion yuan. [redacted]

25X1

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The reforms also have given enterprises and production ministries increased authority over production decisions. The strong government support for light industry and scathing criticism of heavy industry in 1980-81 apparently depressed the demand pull of investment on heavy industry. By 1982, however, we believe heavy industry producers began to take advantage of the market-oriented environment that light industry more rapidly adapted to in 1980.⁴ In our view, investment demand for producer goods and a visible drop in criticism of heavy industry in 1982 permitted the strong heavy industry resurgence that left light industry in its wake.⁵ [redacted]

25X1

Beijing, presumably fearing a repeat performance in 1983, late last year legislated a 30-percent tax on nonbudget investment that exceeds the plan. At the same time, Premier Zhao Ziyang announced that 10 percent of all retained earnings must be turned over to the central government for use in critically needed energy and transport projects. The 1983 investment plan is set slightly below last year's record level, with increases in budget-controlled spending supplanting decreases in investment from retained earnings (see table 1). Sixth Five-Year Plan investment requirements are high and the government wishes to maximize control over how the funds are spent. [redacted]

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Beijing also has expressed concern about overproduction in heavy industry and about light industry's inability to come even close to the target in the first quarter this year. A national industrial conference was convened in late March, but press reporting disclosed much less strident criticism of the swing back to heavy industry than we expected. The conference reaffirmed the program initiated in 1980 of priority-inputs for light industry, but this call was mild compared with publicity for this program in 1980-81. Beijing presumably is trying to coax the economy toward balanced growth rather than using the

⁴Historically, heavy industry enterprises have produced according to government orders, not to satisfy market demand. Light industry, although also producing for government orders, has typically been more flexible. When government orders for heavy industry were drastically cut in 1981, heavy industry's inexperience prevented it from effectively interacting with end-users of its products. Two years' experience has paid off. For example, strong rural demand for small tractors finally was translated into a 50 percent increase in tractor production in 1982, after successive drops in production over the preceding three years. [redacted]

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⁵Although Beijing continued to proclaim publicly a pro-light industry policy, the statements were more tempered, and explained that heavy industry also served an important function. [redacted]

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more heavy-handed tactics of the 1981 readjustment. [redacted]

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Implications and Prospects

Beijing's inability to control these important economic variables has serious implications for both short-term performance and long-term development plans. The excessive growth of heavy industry since the final quarter of 1981 has built up pressure on an already strained energy sector. As more energy and raw materials are channeled to meet growing heavy industry demand, light industry growth rates have dropped off. In the first quarter of this year, heavy industry growth surged to an 11.7 percent rate, squeezing light industry down to a 2.5-percent rate for the quarter, well below the 4.1-percent target for 1983. [redacted]

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Critical to China's long-term development plans is the 6th Five-Year Plan's emphasis on qualitative rather than quantitative economic progress. In this plan period--and for the rest of the decade--Beijing is asking industrial producers to keep production increases within the moderate plan in order to focus on improving productivity and to permit energy and transport capacity to catch up to demand. A two-pronged attack on these bottlenecks, building new capacity and retooling inefficient users of energy and raw materials, is scheduled to last through the 1980s. Beijing fears--and we believe these fears are legitimate--that if industrial producers go all out for production increases and if low priority investment continues to rise, government plans to ease energy and transport shortages will be seriously undercut.

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Premier Zhao, speaking in early June at the National People's Congress, complained that the government has "failed to take sufficiently forceful measures" to regain control of investment. Indeed, a pre-NPC People's Daily editorial warned that if current investment trends continue, China may have to take the sort of drastic moves it did in early 1981. Zhao, though very critical, was not explicit about new measures to resolve the problems and did not threaten a new readjustment campaign. [redacted]

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We believe that Beijing would prefer not to prescribe the strong medicine it felt compelled to use in late 1980-early 1981 to readjust the economy, slashing investment and other spending. That remedy brought the economy up short, producing the lowest growth rates in recent years and unsettling foreign investors and domestic producers. A noted government economist recently urged that tax and price policies be used to guide the economy along the desired growth path, but Zhao's NPC work report stopped short of calling for similar measures. We believe Beijing will try quietly to recentralize control and that this ultimately will alter elements of the government's economic reform program, scheduled for implementation after 1985. [redacted]

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Table 1: Chinese Investment Plans and Performance
(Billion Yuan)

	1979		1980		1981		1982		1983
	Plan	Final	Plan	Final	Plan	Final	Plan	Final	Plan
New Investment	--	50.0	50.0	53.9	30.0*	44.3	38.0*	55.5	50.7
From: Budget	36.0			28.1	17.0	20.76	18.63	19.2	26.1
		39.5							
Loans **	4.0			9.5		9.45	11.3	19.3	13.85
Retained Earnings	--	10.5		16.4	13.0	14.09	8.1	17.0	10.75

[Redacted]

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*Plan revised to 38 billion yuan and 44.5 billion yuan, respectively, midway through 1981 and 1982; see text.

**Includes foreign exchange loans from Bank of China and domestic bank loans

Table 2: Chinese Industrial Plans and Performance

	annual percentage change									
	1979		1980		1981			1982		1983
	Plan	Final	Plan	Final	First Plan	Second Plan	Final	Plan	Final	Plan
Industrial Production	8.0	8.5	6.0	8.7	6.0	3.0	4.1	4.0	7.7	4.0
Light Industry	8.3	9.6	8.0	18.4	8.0	8.0	14.1	7.0	5.7	4.1
Heavy Industry	7.6	7.7	4.0	1.4	4.0	-2.0	-4.7	1.0	9.9	3.9

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